Ellerston Global Mid Small Cap Fund

Ellerston Capital

Monthly Report as at 30 September 2024

APIR Code: ECL3306AU, ECL8388AU | ARSN 609 725 868

Concentrated portfolio of global mid small cap securities, built through a contrarian, high conviction, and benchmark independent approach.

Targets companies which the Portfolio Manager feels are in a period of "price discovery" and which offer an attractive risk/reward dynamic.

Aims to outperform the benchmark with a focus on risk management and capital growth.

Performance Summary - Class A

Performance	1 Month	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)^^
Net^	-0.99%	4.81%	8.39%	-0.53%	8.42%	10.26%
Benchmark*	0.15%	5.86%	18.14%	5.13%	8.68%	10.04%
Alpha	-1.14%	-1.05%	-9.75%	-5.66%	-0.26%	0.22%

Performance Summary – Class B

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception (p.a.)^^
Net^	-0.99%	4.82%	-1.51%	8.33%	-0.33%	7.72%
Benchmark*	0.15%	5.86%	0.12%	18.14%	5.13%	10.71%
Alpha	-1.14%	-1.04%	-1.63%	-9.81%	-5.46%	-2.99%

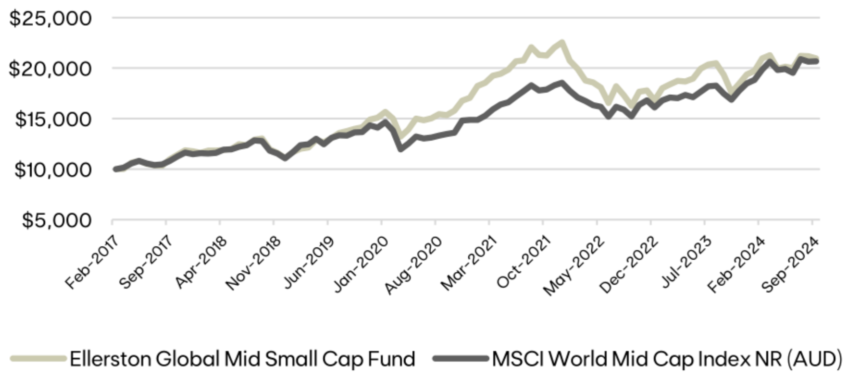
*^ The net return figure is calculated after fees & expenses, assuming all distributions are reinvested. Past performance is not a reliable indication of future performance. * MSCI World Mid Cap Index NR (AUD). ^^Class A inception is 28 February 2017. Class B inception is 18 August 2020.*

Key Information

Portfolio Manager(s)	Bill Pridham
Investment Objective	To outperform the benchmark by 3% over a 5-year rolling period.
Benchmark	MSCI World Mid Cap Index NR (AUD)
Liquidity	Daily
Target Number of Holdings	20-40
Number of Holdings at Month End	35
Minimum Investment	Initial investment - $25,000 Additional investment - $10,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	0.75% p.a.
Performance Fee[1]	10.00%
Buy/Sell Spread	0.25% / 0.25%
Class A Unit Prices & Fund Size	Application – $1.4775 Net Asset Value – $1.4738 Redemption – $1.4701 Fund Size – $41,495,563
Class B Unit Prices & Fund Size	Net Asset Value – $1.2490 Redemption – $1.2459 Fund Size – $46,522,069

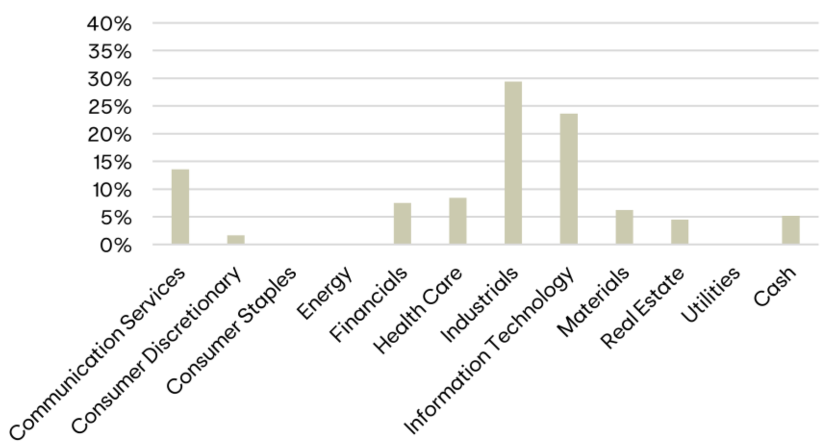
[1]*Of the investment return above the benchmark, after recovering any underperformance in past periods.*

Growth of $10,000 Investment



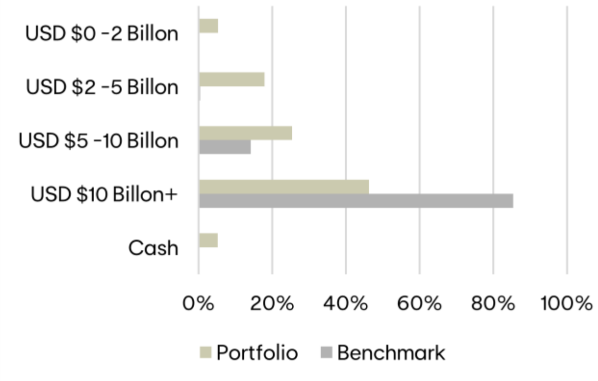
Source: Ellerston Capital.
Performance shown are for Class A Units and net of fees, assuming all distributions are reinvested.
Past performance is not a reliable indication of future performance.

Sector Allocation



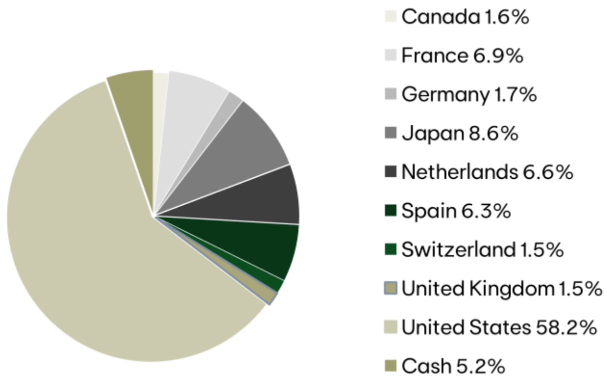
Source: Ellerston Capital.

Market Capitalisation Exposure



Source: Ellerston Capital.

Regional Exposure



Source: Ellerston Capital.

Top Holdings

Company	Sector	Country	Portfolio Weight
GFL Environmental Inc	Industrials	United States	6.5%
Cellnex Telecom S.A.	Communication Services	Spain	6.3%
QXO Inc.	Information Technology	United States	4.5%
AerCap Holdings NV	Industrials	United States	4.3%
Bureau Veritas SA	Industrials	France	3.9%
Corpay Inc.	Financials	United States	3.6%
GXO Logistics Inc	Industrials	United States	3.6%
Option Care Health Inc	Health Care	United States	3.4%
TKO Group Holdings, Inc	Communication Services	United States	3.3%
Graphic Packaging Holding Company	Materials	United States	3.0%

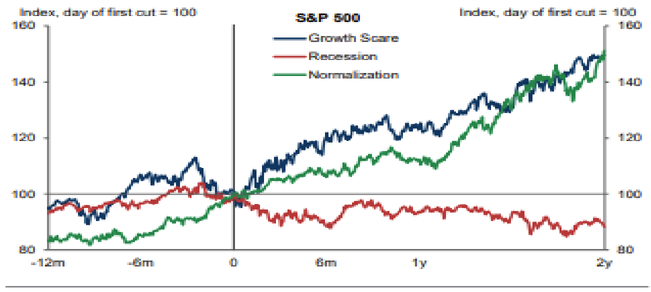
Source: Ellerston Capital.

MARKET COMMENTARY

As the post pandemic inflationary impacts continue to recede, we are seeing global central banks beginning the process of shifting interest rates back to a more neutral setting. The Fed embarked on its rate cutting cycle with a 50bps cut in September, which was well received by the markets. The move helped reduce the odds of a recession, while opening the door for other central banks to ease policy to support economic activity.

The question leading into the Fed rate cutting cycle was whether it would be accompanied by significantly weaker economic activity (recession) or a more benign outcome. Admittedly the actual motivation for lower rates is yet to be seen and while global growth forecasts have been ratcheted down over the past few months, it does appear that forecasters continue to call for a slowing, yet growing, backdrop.

Exhibit 4: Equities have tended to rally after the first cut when there is not a recession
Median across each sample



Source: Goldman Sachs Global Investment Research

Geopolitically we still have to endure another month of US election headlines and while the general consensus is that Kamala Harris had a stronger night in the second presidential debate, the outcome is too early to call. One of the lessons during the 2016 elections (where Donald Trump defeated Hilliary Clinton) was that trying to guess the election result, let alone the actual market reaction, is incredibly difficult. The market, and companies, like certainty and once the rules of the game are known, they can move forward.

At the time of writing, continued escalations in the Middle East, and the risk of a bigger conflict, are driving oil prices higher and risk appetite lower. Over the past several months the market has largely ignored the Iran/Israeli geopolitical risks, however it now seems to be pricing some of this in.

As always, we are mindful of the macro however continue to focus on the micro of stock specific fundamentals.

REGIONAL DISCUSSION

In September, U.S. markets posted solid gains, with the Nasdaq up 2.76%, the S&P 500 rising 2.14%, and the Russell 2000 gaining 0.70%. The Federal Reserve's 50bps rate cut was the primary driver. Despite U.S. consumer confidence missing consensus estimates and dropping to its lowest level since August 2021, supportive monetary policy, stable GDP growth, and a positive earnings outlook continued to sustain the market's momentum.

European markets delivered mixed results in September. The European Central Bank's second 25bps rate cut helped ease monetary policy, driving Spain's IBEX 35 up by 4.17% and Germany's DAX by 2.21%. Conversely, the Swiss Market Index dropped by 2.29%, led by declines in major stocks like Nestlé, Novartis and Roche. The UK's FTSE 100 fell by 1.54%, weighed down by stagnant real GDP growth, with three of the last four months showing flat output, signaling potential economic stagnation.

In September, Japan's stock market experienced its third consecutive month of decline, with the Nikkei 225 dropping by 1.24%. As Japanese stocks continued to unwind from the end of the carry trade, the yen's appreciation further pressured export-reliant sectors, impacting corporate earnings. Manufacturing and technology sectors were particularly affected, as higher borrowing costs and weaker global demand weighed on market performance.

SECTOR DISCUSSION

The Communication Services sector delivered solid performance, driven by strong growth in digital advertising and increased demand for AI-powered communication platforms. Investments in AI and digital infrastructure helped the sector's robust growth trajectory, further boosting investor confidence.

The global Industrials sector faced mixed performance. While infrastructure and aerospace saw moderate gains, other industrial segments faced pressures from rising costs and weaker global demand. Ongoing supply chain disruptions and broader economic uncertainty further weighed on the sector's overall performance.

Financials experienced uneven performance in the past month. While rate cuts in the U.S. and Europe offered some support to banks and lending institutions, they also squeezed margins in certain areas. Asset managers and insurers delivered mixed results, as volatile market conditions limited potential gains.

Healthcare underperformed in September. Pharmaceutical companies experienced slower growth, despite steady demand for essential products, as market volatility dampened investor confidence and reduced capital inflows. Additionally, cost pressures in medical devices and uncertainty in regulatory environments contributed to the sector's weak performance during the month.

PORTFOLIO COMMENTARY

The Ellerston Global Mid Small Cap Fund declined 0.99% net during the month compared to the MSCI World Mid Cap (AUD) Index which was up by 0.15% over the same period. The stronger Aussie dollar was a material drag on returns due to the unhedged nature of the portfolio.

The portfolio's top three contributors QXO, Greatland Gold and Zillow Group added 129bps to performance while Acadia Healthcare, GFL Environmental and Gerresheimer detracted 185 bps during the month.

QXO Inc (+0.56%): QXO aims to become a tech-forward leader in the $800 billion building products distribution industry through accretive acquisitions and organic growth. Investors are confident in both the company's strategic direction and its management team's ability to execute its growth plans.

Greatland Gold (+0.46%): is a leading mining development and exploration company focused on precious and base metals, listed on London Stock Exchange. The company is developing the world-class Havieron gold-copper deposit in the Paterson region of Western Australia while delivering multi-project exploration upside in a low-risk jurisdiction. Greatland Gold is a new addition to the portfolio.

Zilliow (+0.28%): is the No. 1 U.S. residential real estate app. Along with its for-sale and rental listings on Zillow.com, the company provides home loans, mortgage pre-approvals, financing, and real estate professional services. Zillow was recently upgraded by several brokerages as the company continues to expand its market share and grow revenue.

Acadia Healthcare (-0.79%): is the largest stand-alone behavioral healthcare company in the U.S., offering services in various settings, including inpatient psychiatric hospitals, specialty treatment facilities, residential treatment centers, and outpatient clinics. The stock price declined after the company disclosed on 27th September that it received a request for information and a jury subpoena from a U.S. Attorney, as well as a jury subpoena in two separate jurisdictions. Despite the attractive growth profile of its underlying assets, we deemed the headline risk as too great and have exited the position in early October.

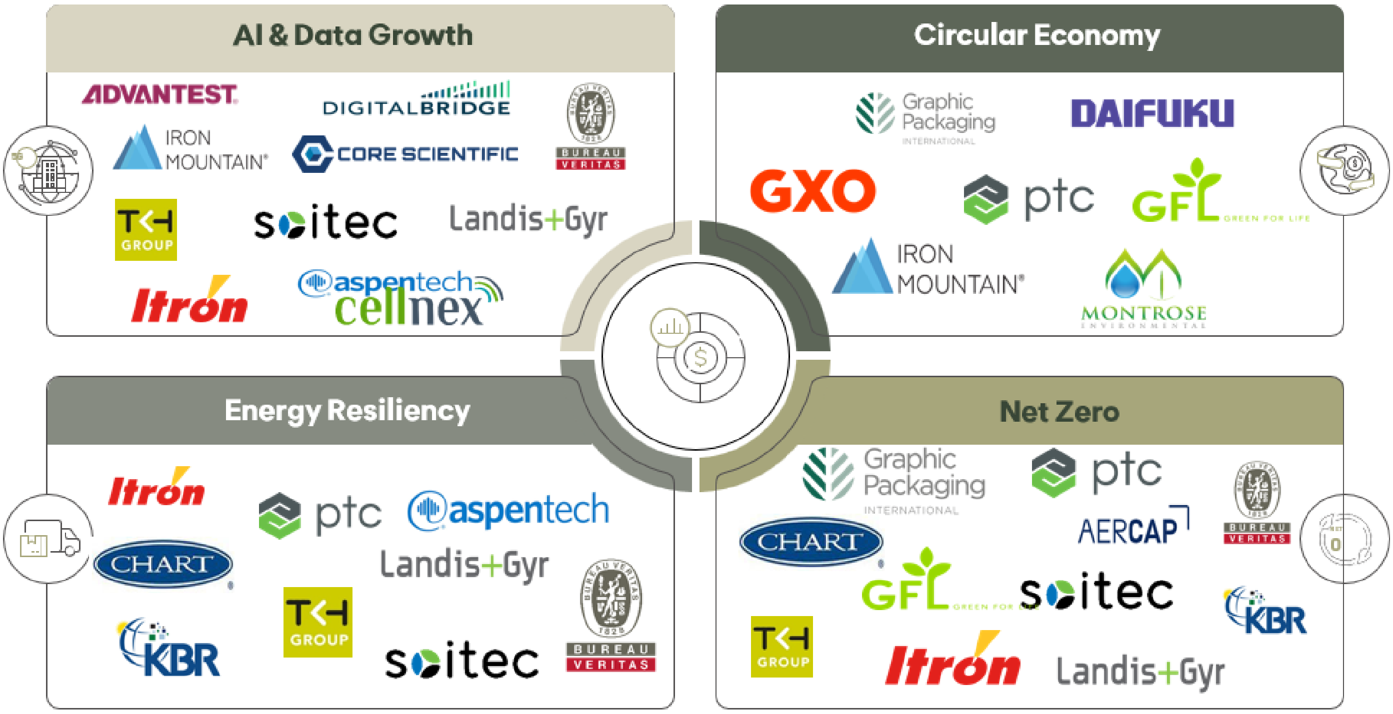
GFL Environmental (-0.56%): is the fourth largest diversified environmental services company in North America, providing a comprehensive line of solid waste management, liquid waste management and soil remediation service in Canada and in more than half of the U.S. states. Stock price declined slightly after a surge over the past three months. We remain positive on the business outlook, anticipating further growth driven by organic expansion and M&A opportunities.

Gerresheimer (-0.51%): provides medicine packaging, drug delivery devices, and solutions with a broad product range for pharma, health, well-being, and biotech. On 30th September, the company disclosed its preliminary third-quarter results, which revealed a slower-than-expected recovery in the vial market. As a result, Gerresheimer downgraded its revenue and earnings expectations for 2024 and 2025, leading to a substantial loss in its stock performance. With more questions than answers during its conference call and the impending Bormioli acquisition which will further leverage its balance sheet we exited the position in early October.

During the month we made some tactical shifts in positioning where we deemed the risk/reward had changed. Kinaxis announced that its long serving CEO would be leaving the company, although more telling was the subsequent departure of its Chief Sales Officer. Kinaxis has been falling behind in its sales efforts and these announcements created greater uncertainty around business performance, so we decided to watch from the sidelines for now. Wilscott was also exited during the month. The stock had appreciated c19% from its recent low despite withdrawing its very accretive bid for McGrath Rentcorp along with mounting concerns around rental volumes. Webster Financial and Ciena were also exited during the quarter as they appreciated 22% and 29% respectively over the past few months thereby reaching full value.

We have deployed the funds into exciting new opportunities including Corpay which is a leader in providing businesses and consumers with a simple and controlled platform on which to pay and manage expenses. KBR, which delivers science, technology and engineering solutions to governments and companies around the world. It is a global leader in providing technology and expertise in sustainable energy focusing on helping to solve the energy trilemma of sustainable, secure and affordable energy. And finally, Aritzia, which is a fully integrated design and retail house with an innovative global platform offering everyday luxury to its growing customer base.

We continue to have differentiated exposure to some pretty powerful long term thematics which should drive long term compounding benefits to us all as investors. These include AI and the growth in data as Industrial IoT and large language networks such as ChatGPT and next generation applications drive data demand, companies that enable our push to a circular economy, beneficiaries of deglobalisation as well as those helping to improve the resilience of our energy grids as the world looks to electrify and companies which are levered to the multi trillion-dollar spending required for our "Road to Net Zero".



Source: Ellerston Capital

These businesses as well as idiosyncratic opportunities in the Fund should provide solid absolute and relative returns over the long term as secular and structural business drivers help mitigate earnings risk in times of economic uncertainty.

As always, we thank you for your continued support and look forward to providing further updates in the future.

Regulatory Guide (RG240) Fund Disclosure Benchmark – Periodic Reporting (monthly)

- **Net Asset Value of the Fund and Redemption Price of Units**

Please refer to details on page one.

- **Any changes to key service providers including any change in related party status.**

There have been no changes to key service providers, including any change in related party status.

- **Net returns after fees, costs and relevant taxes**

Please refer to details on page one.

- **Any material changes to the Fund's risk profile and strategy**

There have been no changes to the Fund's risk profile and strategy.

- **Any material changes related to the primary investment personnel responsible for managing the Fund.**

There have been no changes to the primary investment personnel responsible for managing the Fund.

Contact Us

Sydney

Level 11, 179 Elizabeth Street,
Sydney, NSW 2000
+612 9021 7701
info@ellerstoncapital.com

Find out more:

Should investors have any questions or queries regarding the Fund, please contact our Investor Relations team on 02 9021 7701 or info@ellerstoncapital.com or visit us at ellerstoncapital.com.

All holding enquiries should be directed to our registry, Automic Group on 1300 101 595 or ellerstonfunds@automicgroup.com.au.

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